

CONGRESSIONAL OVERSIGHT PANEL

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Opening Statement of Elizabeth Warren Chair, Congressional Oversight Panel

Learning from the Past: Lessons of the Bank Crises of the 20th Century

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Good morning.

My name is Elizabeth Warren, and I am the Chair of the Congressional Oversight Panel.

Last October, Congress established this Panel to oversee the expenditure of funds from the so-called Troubled Asset Relief Program. It is our duty to issue monthly reports that analyze and evaluate Treasury's administration of that program.

In its first report, the Panel asked Treasury a series of tough questions about the TARP on behalf of taxpayers. The very first question we asked consisted of only four words, but probably the most important four words in the whole report: What is Treasury's strategy?

The lack of a strategy from Treasury has never been clearer than it has this week as outrage spread across the country over the millions of dollars awarded in bonuses to executives at AIG. This entire issue could have been avoided. If Treasury had developed and clearly articulated a comprehensive strategy to deal with this crisis from the beginning, rather than announcing and abandoning inconsistent plans, issues such as executive bonuses would have been addressed early on in the agreements with participating financial institutions.

This lack of a clear strategy is also hampering our economic recovery. The markets need predictability. Investors are reluctant to take risks and business people are hesitant to take on new obligations when no one is sure about our overall economic strategy. Certainly, the most appropriate person to speak to Treasury's strategy would be the Treasury Secretary, and it had been the strong hope of the Panel to have Secretary Geithner here today to testify. While we understand that he has many pressing concerns right now, it is very disappointing that Secretary Geithner did not make it a priority to be here.

The development of a strategy requires an overview of the problem and of possible solutions. To advance that conversation, we believed that we could learn a great deal from prior financial crises. That is why we have called today's hearing – "Learning from the Past: Lessons of the Bank Crises of the 20th Century."

We understand that this financial crisis is different from past calamities. No examples will ever provide a perfect analogy. That said, while George Washington may not have known

the difference between a credit default swap and a hybrid-ARM – I suspect he didn't – he had a powerful learning experience with a bank crises. In 1792, during his first term as president, our young nation suffered a severe panic that froze credit. Subsequent presidents faced similar challenges, as have leaders from across the globe.

And so it is important that we reflect on the efforts of policymakers who have steered their nations out of some very dark hours. It is also important that we reflect on the efforts of other governments that have confronted similar circumstances, but failed to restore the banking system and restart economic growth.

We have invited four thoughtful experts to join us today in embarking on that reflection.

- Richard Katz is a veteran journalist, Editor-in-Chief of *The Oriental Economist*, and the author of two books on Japan's banking crisis of the 1990's. Mr. Katz will testify about what has become known among policymakers as Japan's "Lost Decade."
- Bo Lundgren is the Director General of the Swedish National Debt Office. As Minister for Fiscal and Financial Affairs, Director General Lundgren led the effort to steer Sweden out of a banking crisis in 1992.
- David C. Cooke is the former Executive Director of the Resolution Trust Corporation, which helped steer us out of the savings & loans crisis of the 1980's by taking over more than 700 financial institutions.
- Lastly, Eugene White is Professor of Economics at Rutgers University. Professor White has written widely about the Great Depression and will testify about how the lessons of the 1930's apply to today's crisis.

There is no longer any question that we sit at a critical moment in history. The decisions made by government leaders today will have an impact that lasts for generations. While we cannot fix this crisis with one hand and prevent all future crises with the other – economist Alan Meltzer has said that "capitalism without failure is like religion without sin" – we must use all of the knowledge and lessons of the past to ensure that prior mistakes are not repeated and that successes are not ignored. That is why we greatly appreciate that all of our distinguished witnesses have taken the time to come and be here with us today.

We have your statements in full. They will be made a part of the record and guide our future work. We ask today that you summarize your testimony, and that you keep your remarks to five minutes so that we have enough time for questions.

I would also like to recognize His Excellency, The Swedish Ambassador Jonas Hafström. Your Excellency, we are honored to have you here with us today and appreciate the opportunity to learn from the challenges your nation was able to overcome.

Lastly, I would like to thank Patrick McGreevy and Brian Phillips of the Oversight Panel staff for their hard work in putting together this hearing.